

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE SIYANDA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Siyanda District Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Siyanda District Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Irregular expenditure

9. Irregular expenditure of R8 149 469, as disclosed in note 37.1 to the financial statements, was incurred due to the following reasons:
 - Goods and services amounting to R7 824 982 were acquired in contravention of the Supply Chain Management (SCM) Regulations.
 - DoRA grants amounting to R324 487 were applied to defray operating expenses.

Unauthorised expenditure

10. The municipality incurred unauthorised expenditure of R1 359 044 due to overspending on a municipal vote. This was disclosed in note 37.3 to the financial statements.

Restatement of corresponding figures

11. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of a change in accounting policy during 2011 in the financial statements relating to property, plant and equipment as well as intangible assets. The impact of the change in accounting policy resulted in the accumulated surplus increasing by R8 344 561, property, plant and equipment increasing by R7 167 061, intangible assets decreasing by R233 047, depreciation increasing by R2 365 076 and amortisation increasing by R243 613.
12. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during 2011 in the financial statements relating to account payables, operating lease liability, finance lease liability, expenditure, inventory, provisions, cash and bank, finance cost and accumulated surplus.

Material underspending of the budget

13. The budget was underspent by R8 159 000, relating to capital projects. The rollover application was submitted to the National Treasury for approval. Included in this application was an amount of R3 500 000 that was not approved.

Significant uncertainties

14. With reference to note 42.2 to the financial statements, the municipality did not have a permit for three landfill sites. In terms of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), penalties amounting to R10 million per landfill site can be imposed.

15. Enquiries from management and the attorneys revealed that the municipality is a defendant in a lawsuit relating to various third parties amounting to R197 734, which has been disclosed as a contingent liability, as the outcome of this lawsuit cannot be determined at present.
16. The outcome of the above-mentioned matters cannot be determined at present and no provision has been made in the financial statements.

Additional matter

17. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

18. The supplementary information set out in annexures A to F does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

19. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages **xx to xx** and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

Reported objectives, indicators and targets not consistent and complete when compared to planned objectives, indicators and targets (consistency)

20. The reported performance against predetermined objectives, indicators and targets was not consistent with the approved integrated development plan.

Reported performance against targets not valid, accurate and complete when compared to source information (reliability)

21. For the selected objectives, 32% of the reported targets were not accurate based on the source information or evidence provided.

Planned and reported targets not specific and time bound (measurability)

22. For the selected objectives, all of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance or time bound in specifying the time period or deadline for delivery.

Planned and reported indicators and measures not well defined (measurability)

23. For the selected objectives, 100% of the planned and reported indicators and measures were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

Reliability of information

The content of the integrated development plan was incomplete (accuracy and completeness)

24. The integrated development plan did not include:

- the required budget projections for the next three years, as required by section 26(h) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)
- the key performance indicators and performance targets determined in accordance with the performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001
- the spatial development framework, inclusive of basic guidelines for a land use management system, as required by section 26(e) of the MSA
- the disaster management plan, as required by section 26(g) of the MSA.

Reported performance against targets not valid, accurate and complete when compared to source information (reliability)

25. For the selected objectives, 32% of the reported targets were not accurate based on the source information or evidence provided.

Compliance with laws and regulations

Annual financial statements

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements in revenue, payables and movable assets identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

27. The performance management system was not aligned to the integrated development plan, as required by sections 38(a)(iii) and 39 of the MSA.

Procurement and contract management

28. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of SCM Regulation 13(c).

Internal audit

29. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators, as required by Municipal Planning and Performance Management Regulation 14.

Expenditure management

30. The accounting officer did not take reasonable steps to prevent irregular and unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

31. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that adequately recognised revenue, as required by section 64(2)(e) of the MFMA.

Asset management

32. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets, as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

33. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

34. The council and the accounting officer did not ensure that the integrated development plan was aligned to the performance management system.
35. The accounting did not implement adequate activities to ensure that compliance with the SCM policy was monitored, which resulted in processes not preventing and detecting irregular expenditure and non-compliance with laws and regulations.

Financial and performance management

36. Management did not properly review the financial statements, which resulted in material amendments to the financial statements to ensure its fair presentation.
37. In the absence of appropriate GRAP training to the finance staff, management appointed external service providers to compile the financial statements.
38. Senior did not perform adequate reviews of performance against predetermined objectives.
39. Senior management did not adequately review actual expenditure against the approved budget in order to prevent and detect unauthorised expenditure.
40. Regular reconciliations between the asset register and the financial statements were not performed.
41. There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

Governance

42. The internal audit unit did not follow a risk-based approach in selecting components to be audited and did not use a systematic method to select samples. Material components of performance information were not audited during the 2010-11 financial year.
43. The audit committee did not perform an adequate review of the financial statements of the municipality before they were submitted to the external auditors.

Kimberley

30 November 2011



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence